

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 EB-11 AGR-20 TRSE-00 STR-08 COME-00

CIAE-00 DODE-00 INR-11 NSAE-00 PA-04 RSC-01 USIA-15

PRS-01 SP-03 IO-14 SWF-02 AID-20 PM-07 NSC-07 SS-20

CIEP-03 L-03 H-03 DRC-01 /175 W
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FM AMEMBASSY PANAMA

TO SECSTATE WASHDC 1906

INFO USSOUTHCOM CZ

AMEMBASSY SAN JOSE

AMEMBASSY TEGUCIGALPA

C O N F I D E N T I A L PANAMA 5654

E.O. 11652: GDS

TAGS: ETRD, PN

SUBJECT: BANANAS: GOP-UB MEETING AND EXPORT TAX ISSUE

REF: PANAMA 5574

1. SUMMARY: DISCUSSIONS ON UNITED BRANDS' FUTURE IN PANAMA BEGAN WITH AN AMICABLE MEETING BETWEEN UB VICE PRESIDENT JOHNSON AND GENERAL TORRIJOS AND ARE TO CONTINUE AT THE MINISTERIAL LEVEL NEXT WEEK. COMMERCE MINISTER MANFREDO INFORMED EMBASSY THAT A NEW PANAMANIAN BANANA EXPORT TAX LEVEL WOULD BE SET SHORTLY, IN THE 46 CENTS A BOX RANGE, BUT HIS CURRENT CONSULTATIONS WITH OTHER CENTRAL AMERICAN LEADERS MAY PERMIT ONE MORE ATTEMPT TO REACH AGREEMENT ON A UNIFORM TAX SCALE, PERHAPS INVOLVING ASSISTANCE FOR DEVASTATED HONDURAS. END SUMMARY.

2. UNITED BRANDS(UB) VICE PRESIDENT HARVEY JOHNSON INFORMED EMBASSY THAT DISCUSSION ON FUTURE FORM OF UB PRESENCE IN PANAMA FORESEEN IN SEPT. 3 GOP-UB AGREEMENT WAS INITIATED SEPT 24 IN MEETING WITH GENERAL TORRIJOS. JOHNSON REPORTED THAT GENERAL TALKED IN TERMS OF EVENTUAL TAKEOVER OF PRODUCTIVE FACILITIES SO THAT
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COMPANY HAD NO OWNERSHIP OF LANDS OR INSTALLATIONS IN THE COUNTRY,

WHILE INDICATING THAT THIS WOULD BE DONE IN AN ORDERLY MANNER AND WITH "NO ONE GETTING HURT." JOHNSON REPLIED TO GENERAL THAT COMPANY WAS IN BUSINESS TO SELL BANANAS RATHER THAN PRODUCE THEM AND WOULD THUS BE PREPARED TO SELL PRODUCTIVE FACILITIES TO GOP. HE ADDED THAT UB'S EXTENSIVE RESEARCH IN ALTERNATE CROPS SUITABLE FOR THIS REGION WAS PARALYZED BY CURRENT SITUATION IN WHICH UB WAS LOSING CONSIDERABLE MONEY ON PANAMA OPERATION AND DID NOT KNOW WHAT FUTURE HELD FOR IT. HE INDICATED UB WAS WAITING TO HEAR GOP'S INTENTIONS REGARDING THE EXPORT TAX, BUT THAT UB COULD NOT AFFORD ANYTHING HIGHER THAN A 25 CENT A BOX TAX PATTERNED ON THE HONDURAN FORMULA. THIS, HE TOLD THE GENERAL, WOULD NOT PERMIT UB A PROFIT UNDER PRESENT CIRCUMSTANCES BUT WOULD AT LEAST CURTAIL LOSSES, BUT IF IN FACT PANAMA FELT IT HAD TO SET A HIGHER TAX AS A MATTER OF PRINCIPLE, IT MIGHT GO AHEAD NOW TO THE NEXT STEP UNDER THE HONDURAN FORMULA, A 30 CENT TAX, AND REMAIN THERE UNTIL THE SITUATION OF THE INDUSTRY IS MORE CLEAR. JOHNSON SAID HE SUGGESTED THAT THE EXTRA 5 CENTS MIGHT BE ALLOCATED FOR HONDURAN RELIEF.

3. HE REPORTED THE GENERAL REPLIED THAT NO DECISION WOULD BE MADE ON THE PANAMANIAN TAX UNTIL THE RETURN OF COMMERCE MINISTER MANFREDO AND AGRICULTURAL MINISTER GONZALEZ FROM THEIR VISIT TO HONDURAS AND CONSULTATIONS IN OTHER CENTRAL AMERICAN CAPITALS. HE INVITED JOHNSON TO RETURN OCTOBER 2 TO BEGIN DISCUSSIONS ON UB'S FUTURE IN PANAMA WITH THESE TWO MINISTERS. THE GENERAL STATED THAT ANY NEW TAX ARRANGEMENT WOULD HAVE TO TAKE INTO ACCOUNT THE NEEDS OF HONDURAS.

4. JOHNSON REPORTED THAT UB PRESIDENT BLACK HAD REMOVED HIM FROM OPERATIONAL SIDE AND PUT HIM IN CHARGE OF LIAISON WITH HOST GOVERNMENTS AS FULL TIME RESPONSIBILITY, IN RECOGNITION OF FACT THAT COMPANY HAD NEGLECTED THIS ASPECT OF ITS OPERATIONS. HIS FIRST TASK WILL BE NEGOTIATIONS WITH GOP. HE INDICATED THAT HE HAD MANAGED TO RETAIN GOOD RELATIONSHIP WITH GENERAL EVEN THROUGH CURRENT CONFRONTATION, HAVING KNOWN HIM EARLIER WHEN JOHNSON WAS LONG TIME UB REP IN PANAMA. HE STATED THAT GENERAL IS STILL ENRAGED OVER FACT BLACK CUT OFF SHIPMENTS IN JULY WITHOUT A WORD TO ANYONE AND TOLD HIM TO TELL BLACK NOT TO RETURN TO PANAMA AS HE WOULD SEE HIM AGAIN.

5. IN CONTRAST TO GENERAL'S STATEMENT THAT NOTHING YET WAS DECIDED
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ON BANANA EXPORT TAX ISSUE, MANFREDO INFORMED EMBASSY BEFORE HIS DEPARTURE FOR HONDURAS THAT AN AMENDMENT TO THE TAX REGULATION WOULD BE PUBLISHED BY END OF WEEK, TO BE EFFECTIVE RETROACTIVELY TO SEPTEMBER 20. MANFREDO SAID THAT DETAILS OF TAX FORMULA WERE STILL BEING WORKED OUT, BUT WOULD BE PROVIDED EMBASSY AS SOON AS AVAILABLE. HE INDICATED THAT TAX WOULD BE IN RANGE OF 46-47 CENTS A BOX, BASED ON A FORMULA DERIVED FROM DIFFERENCE BETWEEN ECUADORAN AND PANAMANIAN COSTS OF PRODUCTION AND INVOLVING A SLIDING

SCALE COMPARING MAGNITUDE OF SHIPMENTS WITH AVERAGES OVER LAST THREE YEARS. MANFREDO SAID AMENDMENT WILL ALSO INSTITUTE "PROFIT SHARING FORMULA" BASED ON PRICE OF \$4.25 PER BOX FOB NEW YORK, WITH ANY INCREASE IN GOP SHARE RESULTING FROM PRICE RISE TO BE EARMARKED FOR HONDURAN RELIEF.

6. COMMENT: WHILE DETAILS OF NEW EXPORT TAX SCHEME NOT YET RECEIVED, COMMERCE MINISTRY INDICATES THEY WILL BE FORTHCOMING SHORTLY. IT IS DOUBTFUL, HOWEVER, THAT THEY WILL BE MADE PUBLIC UNTIL MANFREDO'S RETURN, AS HONDURAN DISASTER HAS PROVIDED ONE MORE OPPORTUNITY FOR ATTEMPT AT AGREEMENT ON A COMMON EXPORT TAX, AT LEAST AMONG PANAMA, HONDURAS, AND COSTA RICA. COMMON THEME AMONG ALL CONCERNED LOCALLY IS THAT A NEW TAX FORMULA SHOULD INCLUDE SOME EARMARKING OF ASSISTANCE FOR HONDURAS. END COMMENT.
JORDEN

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